



APRIL 18, 2008

To: California Air Resources Board
Regarding: BCSE Comments on AB32 Offsets Program Design Elements
Submitted Via: CARB Website

On behalf of the members of the Business Council for Sustainable Energy (the Council), we appreciate the opportunity to provide comments regarding the California Air Resources Board (CARB) Offsets Program Design Elements for the Assembly Bill 32 (AB32) Scoping Plan, which were the subject of the April 4 Technical Stakeholder Working Group meeting regarding California's greenhouse gas cap-and-trade system. The Council looks forward to working with CARB as you move forward with the design of the program. We remain available to discuss our recommendations in further detail.

Introduction

The Business Council for Sustainable Energy is a broad-based coalition of energy efficiency, natural gas and renewable energy industries that advocates energy and environmental policies that promote markets for clean, efficient and sustainable energy products and services. The Council's coalition includes power developers, equipment manufacturers, independent generators, green power marketers, retailers, and gas and electric utilities, as well as several of the primary trade associations in these sectors.

The Council and its members have been working consistently with state, federal and international policymakers on market-based measures to reduce greenhouse gas emissions since its inception in the early 1990s. The Council was the first industry coalition to support a binding multilateral regime to address climate change. The coalition supports the establishment of market-based programs for clean energy technology innovation, economic efficiency and enhanced energy security. We view the AB32 cap-and-trade program as an important vehicle to reduce greenhouse gas emissions in the western region.

BCSE Recommendations on Offsets Design Elements

The following comments address BCSE positions regarding the Offsets Program Design Elements for the AB32 Scoping Plan.

In general the BCSE would like to reaffirm our support for the use of offsets as a compliance mechanism to provide compliance flexibility, lower compliance costs and encourage technology innovation and deployment.¹ The creation of an offset program will enable non-capped sectors to participate in creating additional reductions beyond levels set by the state of California. The Council respectfully submits the following comments on specific questions raised during the April 4 Technical Stakeholder Workgroup meeting and White Paper.

Should California have an offset program for compliance purposes?

BCSE supports the use of offsets as a compliance mechanism to provide compliance flexibility, lower compliance costs and encourage technology innovation and deployment. The creation of an offset program will enable non-capped sectors to participate in creating additional reductions beyond levels set by the state.

While many offset projects deliver co-benefits (such as reductions in conventional air pollutants, improvements in sustainability and biodiversity, and economic development for disadvantaged communities), the focus of climate change

¹ The Council's position paper on offsets can be found at: *Recommendations for a Federal Greenhouse Gas Offset Program*, BCSE, September 2007, http://www.bcse.org/publications/press_releases/BCSE_Offset_Principles_final_9_5_07.pdf.

policy should remain on reducing GHG emissions. Co-benefits therefore should not be required for the approval of offset projects.

What should the project approval and quantification process be for approving projects?

BCSE offers the following evaluation criteria to ensure the utmost integrity with respect to the design and implementation of the AB32 offsets program:

- Emissions offsets must be real, additional, permanent, independently verifiable, enforceable, measurable, and transparent
- Promote broad sector and activity eligibility for offsets
- Permit broad use of emissions offsets
- Reward early action to reduce greenhouse gas emissions
- Avoid placing geographical or quantitative restraints on the use of offsets
- Promote linkages with other domestic and international offset programs, and permit fungible use of eligible offsets generated from within such programs
- Utilize a standards-based approach for offset projects while allowing for case-by-case review of projects without pre-approved methodologies²
- Employ multiple tests for demonstration of offset “additionality”³
- Utilize standardized emission factors

BCSE believes Pacific Gas & Electric’s ClimateSmart™ Program and The Climate Trust in Oregon are successful models of greenhouse gas emission offsets programs that the state of California could use as a model.

Should there be quantitative limits on the use of offsets for compliance purposes? If so, how should the limit be determined?

BCSE is concerned that quantitative and geographic limitations on offsets could affect the availability of low-cost offsets within the state, ultimately causing an increase in compliance costs.

Should California establish geographic limits of preferences on the location of projects that could be used to generate credits within the offset system? If so, what should be the nature of those limits or preferences?

There is concern that geographical restraints on the use of offsets within the AB32 cap-and-trade system could increase compliance cost. We encourage California to design the cap-and-trade program to link with other compatible regional, national and international cap-and-trade programs to ensure lowest-cost compliance and increase global market liquidity. The Council supports strong linkages between the AB32 program, the developing WCI program and the Regional Greenhouse Gas Initiative (RGGI) and the European Union Emissions Trading System (EU ETS), provided such linkages are based on comparable environmental commodities, and based on allowance transactions that are transparent and verifiable.

Conclusion

Thank you for the opportunity to provide recommendations to the California Air Resources Board.

² The Council supports using a standards-based offsets program in lieu of a case-by-case review of individual offsets projects, which has caused issues with efficiency and consistency in the case law approach used by the Clean Development Mechanism under the Kyoto Protocol.

³ In developing standards for additionality, the Council wishes to caution against the use of pure financial additionality tests in determining offset project eligibility. Financial additionality can be part of a range of factors, but it should not be the only way of proving additionality, nor should it be weighted more than other additionality tests. In our experience, financial additionality tests alone deter good projects and weaken the credibility and market power of offset programs. Further, financial additionality tests are subject to gaming and cannot reasonably account for market behavior. Instead, we recommend practical application of a number of “barriers tests,” as is recommended by the World Resource Institute’s Greenhouse Gas Protocol for Project Accounting at: http://www.ghgprotocol.org/DocRoot/m1Tv5lnUuFTjYZx3x1ev/GHG_Project_Protocol.pdf

If you have any questions or comments please feel free to contact me at (202) 785-0507 or via email at ljacobson@bcse.org.

Sincerely,

A handwritten signature in cursive script that reads "Lisa Jacobson".

Lisa Jacobson
Executive Director